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SECURITIES INDUSTRY ASSOCIATION

TRENDS

An Analysis of Emerging Trends in the Securities Industry

Produced by the SIA Research Department

Vol. XVI, No. 2 March 6, 1990

Crisis Brewing: The Precarious Position of State Governments

Highlights

1. New York State and City are wrestling with budgetary dilemmas, a conditioned shared by a growing number of states and localities. With economic growth projected to slow in 1990 and legislators' resistance to spending restraint, state and local taxes will become an increasing burden on business and individuals.

2. Revenues of government -- federal, state and local, while matching the increase in nominal GNP in the period 1978-88, clearly surpassed the 81% increase in inflation and, more importantly the 29% rise in real GNP.

3. State and local governments enjoyed hefty surpluses overall in recent years. However, fiscal conditions vary widely on an individual state basis. The National Conference of State Legislatures predicts more than half the states will face serious budget problems in 1990.

4. New York is a high cost producer of public goods and services. The average tax take for state and localities is $115.62 per $1,000 of income -- New York's at $163.73 is more than 40% above the national average. Neighboring states -- Massachusetts, Connecticut and New Jersey -- are not exactly tax havens, with tax burdens all above the median in terms of per dollar of income.

5. On a cumulative basis, New York's general fund budget has increased almost 35% from fiscal 1985-86 to 1990-91 (proposed), while inflation has increased by 21.8%. The state has maintained its spending pattern through a pattern of perpetual deficits.

6. With some states and localities unable to hold spending even in-line with inflation, policymakers must focus on how large the public sector should really be.

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Crisis Brewing:
The Precarious Position of State Governments

Introduction

In January, Governor Cuomo announced his budget plan for the 1990 fiscal year which, although billed as "austere", would raise total state spending to $51 billion, or about 9.3% above the level of fiscal 1989. In comparison, President Bush's budget for fiscal 1991 projects a spending increase of just 3%. New York's executive budget makes provision to close a projected deficit of over $2 billion through almost $1 billion in increased or new taxes and other measures. For the securities industry, prominent among these measures is the cancellation of the final phase of the individual income tax cut, a 1/2% gross receipts tax, a 6% excise tax on out-of-state telecommunications, and a 2% tax on the net income of "S" corporations. The executive budget projected a $700 million deficit going into the final quarter of the current fiscal year.

New York State's budget difficulties are exacerbated at the City level. In presenting the financial plan for New York City in early February, Mayor Dinkins called for a budget of about $27.8 billion in fiscal year 1991, an increase of around 5% from the current fiscal year. The combined budget gap for 1990 and 1991 was estimated at $1.3 billion. About $550 million in new taxes are proposed to close this deficit, including a 3-year 7.5% surcharge on the personal income tax estimated to raise $200 million in revenues. The City is also seeking permission from the state to tax interstate and international telecommunications similar to the state's proposal.

New York State and City are not alone in their budgetary dilemmas: Connecticut, $150 million projected deficit; Maine, $210 million; Massachusetts, $500 million; New Jersey, $550 million. The list keeps growing, as do the projected deficits. While sustained deficits are the exclusive domain of the federal government, the budget gaps cropping up at the state and local level and the creative array of taxes devised to close them are drawing, and should draw, increased attention from taxpayers and others. With economic growth projected to slow in 1990 and legislators' resistance to spending restraint, state and local taxes will become an increasing burden on business and individuals. Federal tax initiatives, which dominated the scene in the 1980s, may be overshadowed by tax proposals put forth by states and localities in the 1990s. Indeed, federal tax changes may become "tame" in comparison to state and local tax initiatives.

This issue of Trends represents the views of the authors, J. Schaefer and C. Hildebrandt, and not necessarily the views of SIA.

The Big Picture

Government -- federal, state and local -- was fueled by about $1.7 trillion in total revenues in 1987-88. This divides up to $7,226.74 per person in the U.S. or $471.42 per $1,000 of personal income (includes other charges as well as social security). In other words, for every dollar of income, the government in its broadest form is a "partner", taking almost half of an individual's income. If social security related and other revenues are excluded, the bite drops to $4,061.22 per capita or $264.99 per $1,000 of income. Over the 10-year period 1978-88, federal revenues increased 120%, with the individual tax component almost keeping step with this pace. Social security contributions soared 170%. State and local receipts rose 112% during the period, but the individual tax component jumped 162%. Revenues of all governmental levels, while matching the increase in nominal GNP, clearly surpassed the 81% increase in inflation and, more importantly, the 29% rise in real GNP.

With its power to operate in deficit, the federal government did a much "better" job of increasing spending than states and localities which, nevertheless, did their fair share. Federal expenditures grew 138% in 1978-88, considerably more than receipts, and the stubborn federal deficit stands as testimony to this overspending. States and localities also increased spending at a faster rate than receipt growth in the past 10 years, 116% versus 112%. However, although the rate of spending increased more than the growth in receipts, state and local governments combined still enjoyed surpluses in recent years.1/ This surplus reached a record high of $65.1 billion in 1985 but has subsequently declined in every year to an estimated $45.0 billion in 1989.

The overall surplus for state and localities, while comforting, cannot be viewed as an overall indicator of the financial health of state and local governments. Fiscal conditions vary widely on an individual state and regional basis. Many states are now scrambling to resolve their deficits and are dipping into reserves and "rainy day" funds, in addition to pushing for increased taxes.

The Handwriting on the Wall

A summary of tax actions of states in fiscal 1989, one that started with a rosier scenario than 1990, puts the handwriting on the wall. Spending out of total state general funds (the main operating fund of the state, with income derived from state imposed taxes) is estimated to have increased 7.2%, somewhat more than the 6.6% reported for fiscal 1988. Moreover, the rate of spending increase was clearly more than the projected revenue growth of 6.5%. It is not surprising that of the major state tax changes in 1989, tax increases swamped tax decreases.

Forty-two states made notable tax changes: 30 states enacted net tax increases, 11 states made net decreases, and one state implemented a revenue-neutral change.2/ The end result was a net tax increase of $3.5 billion, or $4.7 billion without the inclusion of New York's $1.2 billion tax adjustment to the broadened federal tax base resulting from the Revenue Act of 1986. A $4.7 billion increase equals the previous largest rise of the decade in 1983.

1/Based on national income and product accounts, Department of Commerce, Bureau of Economic Analysis.

2/State tax statistics in this section are drawn from State Budget Actions in 1989, National Conference of State Legislatures, August 1989 preliminary survey.

Every type of tax was used to maneuver states into fiscally "responsible" positions. Excise taxes were the most common, with 23 states raising motor fuel taxes, 13 increasing cigarette taxes, and 7 boosting alcoholic beverage taxes. There were 6 broad increases in personal income taxes. Five states pushed up their sales tax by increasing the rate and broadening the base, while 9 others increased the sales tax by expanding the base only. Five states broadly increased corporate income taxes. New York's corporate tax package was designed to raise $188 million. Included in the package was a restrictive provision on the use of the dividends received deduction by corporations which impacted mainly securities firms. Also, unprecedented limitations were legislated on merger and acquisition activity through tax penalties that seem to serve the interests of entrenched corporate management.

Of the tax decreases, the main tax cuts were broad personal income tax reductions in six states, including New York. The New York reduction was the third phase of the state's 1987 tax reform which was to return to taxpayers more than $11 billion resulting largely from the federal tax reform "windfall". The Tax Act of 1986 broadened the tax base significantly and, without rate adjustments by state and local governments, would have resulted in a windfall.

Overall, the year-end balances of states, which serves as a safety hedge of sorts, for fiscal year 1989 was significant, with preliminary estimates placing it at one of the highest levels of the 1980s, about 4%-5% of total expenditures. However, the major reason that state fiscal conditions improved in the past year was the stronger-than-expected performance of the national economy rather than prudent state fiscal policies. In retrospect, the economic assumptions undergirding state budgets were too conservative.

So too, the fiscal predicaments of several states drew much attention. In particular, the northeastern states were the first group to experience serious revenue shortfalls. Massachusetts took the lead and now has the dubious distinction of a triple-B credit rating. The National Conference of State Legislatures predicts more than half the states will face serious budget problems in 1990. However, tax increases may be delayed until fiscal 1991 rather than 1990, given the many tax increases enacted in 1989 and the 1990 general elections, which usually temper ambitious tax increases.

State & Local Taxes

Every taxpayer likes to complain about the weight of his or her tax burden. At the state and local level, that burden can be measured in two ways -- per dollar of personal income and per capita. Taxes per dollar of personal income is the more informative, given that income is considered the "best" indicator of ability to pay. In general, northeastern states tend to have above-average tax burdens relative to income or "ability to pay" as compared to the rest of the country.

For every $1,000 of personal income, New York has a $163.73 tax bite, the highest in the region and about third in a ranking of the 50 states and the District of Columbia.[3] Only Alaska and the District of Columbia are ranked higher. However, Alaska and several other high ranking states generally have a low resident tax burden because most of their taxes are "exported" to others through energy companies. All

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3/A state's tax system is analyzed in conjunction with the local in order to derive an overview of the total state tax system. Hence, reference to New York includes New York City and other localities. Rankings are based on 1987-88.

Table I

State & Local Revenue
Per $1,000 of Personal Income
1987-88

	Total Revenue	Total Tax Revenue	Property Taxes	Sales & Gross Receipts	Income Taxes
U.S. Average	$234.73	$115.62	$35.09	$41.47	$29.75
	CT 180.69	107.98	43.13	42.60	13.96
	MA 199.62	113.50	36.29	26.42	45.08
	NJ 199.41	109.62	46.13	33.06	23.95
	NY 301.99	163.73	47.98	44.20	61.60
HIGH	AK 330.98	AK 197.25	WY 70.37	HA 79.28	NY 61.60
LOW	NH 162.56	NH 86.19	AL 11.13	OR 10.57	4* 0

Source: Government Finances in 1987-1988, U.S. Department of Commerce, Bureau of the Census.

* Four states, Nevada, Texas, Washington and Wyoming, collect no revenue from income taxes.

states generally have some ability to export taxes, but the greatest ability rests with the major energy-producing states and small states with large tourism such as Hawaii and Nevada.[4]

The average tax take for state and localities is $115.62 per $1,000 of income (See Table I). New York's $163.73 take is more than 40% above the national average. Helping New York gain its prominent tax burden position is the highest income tax per $1,000 among the 50 states, $61.60 -- more than twice the national average. Across the board, in fact, New York beats the national average and its neighbors. This is not great news from a competitive viewpoint, analogous in the private sector to being the highest cost producer. Not that New York's neighboring states are exactly tax havens. Massachusetts, Connecticut, and New Jersey, all are above the median in terms of tax burden per dollar of income.

A per capita ranking of state and local tax revenues catapults New York and its neighbors into the top 7 states in terms of tax burdens (See Table II). Claiming third, New York's per capita tax soars 65% above the national average of $1,772.43 and the region as a whole is not far behind. A combination of hefty taxes elevates the region. For example, Massachusetts' revenues from general sales tax collections fall below the median, but the tax burden on income gives that state the less-than-desirous position of being right behind New York.

[4] "Interstate Tax Comparisons and How They Changed Over Time" by Steven Gold and Judy Zelio, Tax Notes, 3/20/89.

Table II

State & Local Revenue
Ranked by Per Capita
1987-88

	Total Revenue	Total Tax Revenue	Property Taxes	Income Taxes	General Sales Taxes
U.S. Average	$3,598	$1,772	$538	$ 456	$428
NY	3 5,412	NY 3 2,934	NJ 4 933	NY 2 1,104	CT 4 614
NJ	8 4,033	CT 4 2,281	CT 6 911	MA 3 858	NY 7 570
CT	12 3,817	NJ 6 2,217	NY 7 860	NJ 16 484	NJ 21 406
MA	14 3,799	MA 7 2,160	MA 12 691	CT 36 295	MA 34 343

Source: Government Finances in 1987-88, U.S. Department of Commerce, Bureau of the Census.

Measured over time, state and local tax revenues escalated in the 1970-78 period by about 6.6% per $100 of income (See Table III). Regionally, increases in all four states outpaced the national average, with Massachusetts collecting some 22.3% more per dollar of income by the end of the period. The trend was reversed in 1978-87, as state and local tax revenues dropped relative to income by 5.1%. However, revenues in New York and New Jersey did not decline by as much as the national trend, while Connecticut's revenues relative to income continued to increase. Regionally, revenues generally swelled by significantly more than the national average in 1970-78 and decreased by less in 1978-87, with the exception of Massachusetts. Consequently, over the 1970-87 period, the region generally saw double-digit increases in tax revenues not only in absolute amounts but, even more troublesome, per dollar of income. The tax take for New York and its neighbors grew notably, in sharp contrast to the U.S. average of 1.2%.

Where It Goes

The national average state and local per capita expenditure is $3,365.09. The high regional tax burden, however, has supported well-above average expenditures. New York's per capita spending is $5,025.91, almost 50% above the national average of $3,365.09 and considerably above regional spending (See Table IV). Massachusetts, New Jersey and Connecticut, although above the median, are considerably closer to it than New York. For example, although Massachusetts ranks fifth in terms of per capita spending, that spending is only 17% above the national average.

New York ranks high in targeting resources for education and public welfare as does the region generally. New York's outlays for elementary and secondary

Table III

State & Local Tax Revenue
Percent Change Per $100 of Personal Income

	1970-78	1978-87	1970-87
U.S. Average	6.6%	-5.1%	1.2%
New York	13.4	-0.3	13.1
New Jersey	18.1	-4.4	12.9
Connecticut	7.9	3.3	11.4
Massachusetts	22.3	-17.5	0.9

Source: "Interstate Tax Comparisons and How They Have Changed Over Time", Steven Gold and Judy Zelio, Tax Notes, 3/20/89.

education, $933.99 per capita, run some 35% above the national average and for public welfare, double the average. However, as anyone driving through the City or State may suspect, highway spending is a relatively low priority.

Focus on New York State

New York has many claims to fame. It is the second most populated state and one of relative wealth. However, there are a host of problems to deal with -- the homeless, a large AIDS population, drugs, education, New York City, etc. Not to mention a high cost of living. How the state has dealt with these problems in terms of resource dedication is depicted in Table V.

As explained in the Public Policy Institute of New York State's recent publication, The 1990 Taxpayers' Guide, wading through the budget is, indeed, a complex and difficult task.[5] Focusing on New York's general fund or cash budget (main state operating budget) years shows an increase of almost 35% from fiscal 1985-86 to 1990-91 (projected). While this budget is presented as the executive budget, it does not include all state spending, omitting both federal funds and special fee programs. It is estimated that $1.9 billion in fee-related spending has been shifted off budget in the past four years. (A "trick" possibly picked up from Big Brother.)

The all funds budget incorporates all state spending of funds from all sources. Considerably larger than the general budget, the all funds budget has increased by almost 48% over the period. Both budgets have, in fact, increased sharply faster than inflation, 21.8% (cumulative), over the fiscal 1985-91 period. (See Chart I).

Education and health and welfare are the state's top priorities, with spending increasing by 106% and 156%, respectively, from 1980 to 1990 (proposed). In fiscal 1990-91, health and welfare spending of $19.3 billion is proposed and education spending, $16.2 billion, making these two sectors over 30% each of total spending. Public protection, however, received the largest increase in funds of the delineated priorities over the period, 333%, and now encompasses some 5% of total state

[5] Data and commentary in this section are based largely on this excellent publication.

Table IV

State & Local Expenditures
Ranked Per Capita
1987-88

	Total Expend.	Elemen. & Secondary Education	Public Welfare	Highways	Capital Outlay 1/
U.S. Average	$3,365	$690	$362	$226	$364
	NY 3 5,026	NY 3 934	NY 2 725	CT 12 303	NY 15 413
	MA 5 3,946	NJ 5 828	MA 4 578	NJ 17 279	NJ 19 387
	NJ 9 3,707	CT 11 774	CT 12 405	NY 30 221	CT 20 386
	CT 11 3,585	MA 24 683	NJ 14 386	MA 48 181	MA 30 341

Source: Government Finances in 1987-88, U.S. Department of Commerce, Bureau of the Census.

1/ Direct expenditure for contract or force account construction of buildings, roads and other improvements, for purchase of equipment, land, and existing structures and for payments on capital leases. Includes amounts for additions, replacements and major alterations to fixed works and structures. However, expenditure for repairs to such works and structures is classified elsewhere.

spending. With the exception of general purpose aid to localities -- the result of which can be seen in New York City's budget situation, all funds spending in 1980 to 1990 for major programs skyrocketed in comparison to inflation for the state and local sector, 64%.

How the state has fared in recent years in maintaining its spending pattern is summed up in a pattern of perpetual deficits. The fiscal 1988-89 deficit was closed by funds from the special tax windfall account and borrowing. The projected fiscal 1989-90 deficit was to be closed by $900 million in increased taxes and holding spending growth to 4.9%. Nevertheless, fiscal 1989-90 has missed the mark and is projected to end with a $350 million deficit because of $312 million more in spending and a larger than expected deficit in the prior year, requiring dipping into the current year's revenues.

Living close to the edge -- or spending every dollar of projected revenues -- makes for difficult budgeting particularly in times of economic uncertainty. However, "revenue shortfall" is heard more frequently than spending overrun. Particularly for 1989-90, revenue shortfall is carrying the blame. Some revenue sources are down from projections, but not all. Personal income tax collections are estimated at $15.8 billion - - $504 million more than originally projected.[6] Business taxes are projected to

6 We understand that January 1990 income tax collections are down sharply from 1989, as the general economy weakens and Wall Street's decline is finally reflected in tax revenues.

Table V

New York State Spending Priorities
All funds budget, $ millions

Priority	FY 1980-81	FY 1990-91 Proposed	% Increase
Public protection	$ 641	$ 2,775	333%
Health & welfare	7,552	19,323	156%
Mental health	1,865	4,399	136%
Education	7,838	16,181	106%
Parks and environmental affairs	525	1,571	199%
Housing and economic development	437	943	116%
Transportation	2,098	4,608	120%
General purpose aid to localities	963	1,152	20%
General government, other miscellaneous	285	1,414	396%
Aggregate inflation rate (state & local sector)			64%

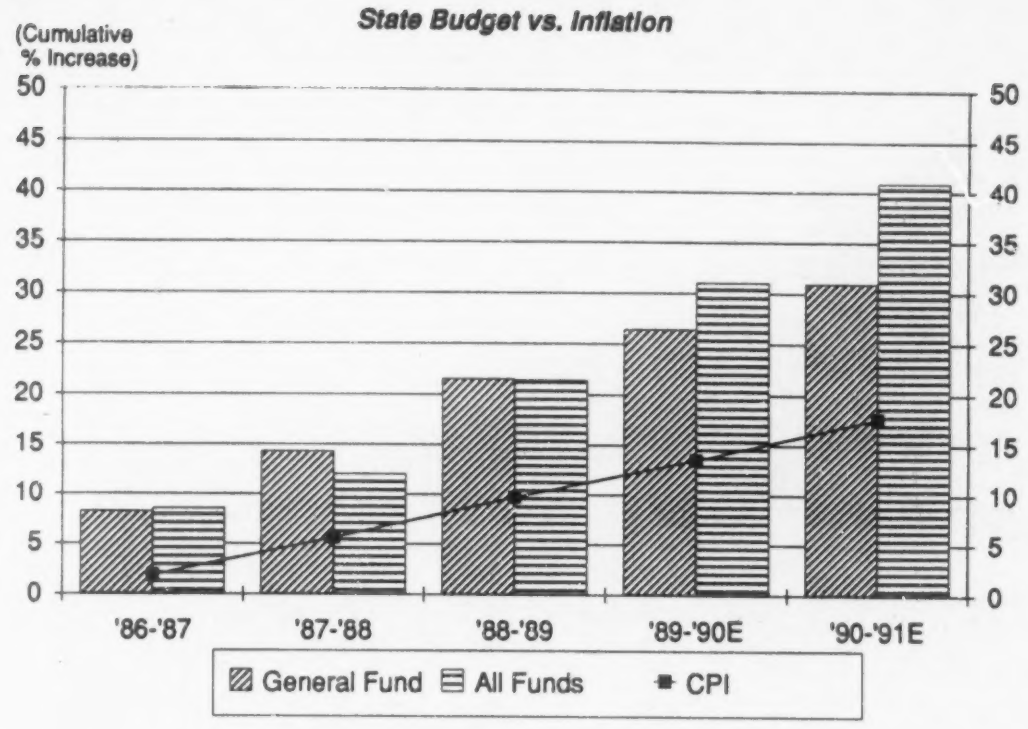
Source: The 1990 Taxpayers' Guide, The Public Policy Institute of New York State, Inc., Albany, New York, January 1990.

estate gains taxes and overestimation of add-on taxes enacted last year. Although some revenues did not "live up" to expectations, the bottom line is: revenue forecasting errors would not have resulted in a deficit, if spending had been held to the level originally proposed.

Revenue forecasting is a difficult art, with mistakes resulting in large errors in projected versus actual revenues. For example, if personal income grows in 1990 by 6.2% (forecast used by the State Budget Division until just before the budget was introduced), instead of the 5.5% currently forecast in the executive budget, the state would collect about $200 million more in personal income taxes -- without canceling the personal income tax cut.

Business Taxes

For a number of reasons, New York State has experienced a decline in corporate tax collections(Article 9-A) since 1978-79, one that has been more acute in recent years. In fiscal 1981, New York collected $1.09 billion from 415,000 9-A corporations. By fiscal 1989, those collections had risen to $1.42 billion from 225,000 companies. In other words, 30% more tax revenue was collected from 46% less companies. The difference in the number of reporting companies is explained by a shift to Subchapter S corporate status by more than 200,000 companies.



Note: Budget based on fiscal year; CPI on an annual basis.
All estimates from State Budget, 1990-91.

Moreover, despite a corporate tax cut in 1987, between 1981 and 1989, the average corporate tax payment increased to $6,311 from $2,397 per company. The business share of all state taxes is approaching 21%. In terms of corporate tax burden to corporate net income, New York ranks second among all states and about twice the national average. Only Massachusetts has a heavier tax burden. Nevertheless, a hefty package of tax increases for business are included in the Governor's budget for 1990-91. New business taxes total at least an estimated $382 million, excluding the estimated $135 million from the 6% telecommunications tax that will impact mainly the business community.

Last year's tax package and this year's proposed business taxes fall hard on the financial services industry, especially the securities industry. As New York's economy has shifted from goods producing to service based, the services sector has accounted for an increasing share of 9-A corporate taxes. Wall Street plays a dominant role in the services sector which is composed of finance, insurance, real estate and other service industries. In corporate fiscal year 1977-78, the goods-producing sector paid over 55% of total NY corporate tax collections and the service sector, less than 20%.[7/] In 1985-86, the service sector's share approached 40% or twice as much in relative terms. With Wall Street a major player in the services sector, there are important implications for forecasting 9-A revenues -- given the profit volatility of the securities industry. (See Chart II). Moreover, continual targeting of a large and vital component of the state's and city's economies for tax increases is no way to remain competitive. Given the current state of the industry -- contraction and low profitability,

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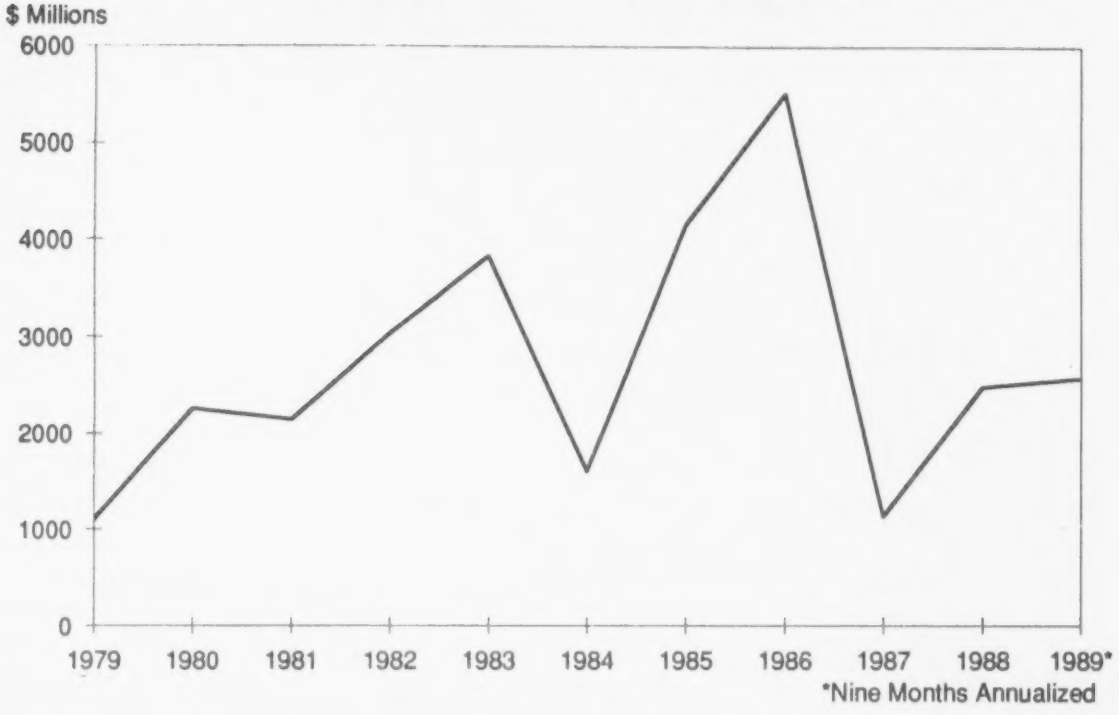
7/New York's Business Tax Decline, Discussion Paper, Department of Taxation and Finance, November 1989.

SECURITIES INDUSTRY PRE-TAX PROFITS



it is certainly questionable public policy to be raising taxes since the securities industry has shown the ability to relocate in order to reduce costs.[8]

Conclusion

The 1990s are shaping up to be one of fiscal stress for states and localities -- it already has started. State spending in the 1980s was increased to meet the needs of education, public welfare, etc. But more has not necessarily proved to be better. More money for additional and existing programs does not necessarily translate to improved services. The quality and effectiveness of spending programs may, indeed, be difficult to measure but surely some attempt is necessary given the rapid run up in spending in the 1980s.

Gramm-Rudman, although far from perfect, has at least set deficit targets that limit increases in federal spending. Several states and localities have adopted tax expenditure caps. With some state and localities unable to hold spending even in-line with inflation, policymakers must start focusing on how large the public sector should really be.

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[8] In a study released in 1985, it was estimated that the securities industry accounted for 4% of NYC's employment in 1983 and each securities industry job supported three additional jobs in other sectors. Until 4Q87, the securities industry's importance to NYC and NYS was growing rapidly. For New York City, it has been estimated that the securities industry accounted for more than one third of private sector job growth in the 10 years prior to the crash.

State and local taxes have more than kept pace with the escalation in personal income in recent years. For various reasons, voters have been willing to see the state and local sector expand in step with personal income. But, apparently some states, including New York, allowed taxes to rise much faster than income. Taxpayer resentment is becoming a widespread reality. States such as Connecticut, New Jersey, and New York are in this predicament.

There are many signs that national economic growth is turning sluggish. At the very least, the Northeast region is lagging economically and several important sectors are depressed. Clearly, the real estate and securities markets have suffered dramatic slowdowns, particularly in activity or transactions. The New York Times recently reported that sales of residential homes plunged from 224,000 in 1987 to 187,000 in 1989, or 16.5% in just two years. For the first time in many years, "must sell" homeowners are experiencing losses. The slide in home sales is even steeper than the 12% drop in average daily volume on the NYSE from 1987 to 1989.

When budgets are now introduced calling for increases of over 9% in total spending as in New York, taxpayer frustration can be expected to follow. Government cannot expect the private sector to "sit quietly" and accept increases in tax rates or expanded tax bases. Double-digit growth in taxes relative to personal income over almost 20 years is simply unacceptable to most taxpayers.

New York is a high tax state. That is a problem which should be of prime concern to policymakers. In the private sector, the high cost producer eventually suffers the consequences of contraction and disruption, if not eventual liquidation. New York is a high cost producer, and problems cannot be resolved by raising taxes (costs) further.

The securities industry enjoyed some strong years in the 1980s. Nevertheless, over 45,000 industry jobs have been lost since 3Q87, almost 17% of the pre-October 1987 labor force. Firms have gone out of business and top management has dramatically changed in many organizations. State policymakers face problems of equal magnitude, with difficult choices needed on spending priorities and the allocation of scarce resources. Increased taxes are a poor public policy choice in periods of economic stress when vital sectors of the New York economy are experiencing a business downturn. The ultimate consequences for state and city leaders is an erosion of the future tax base, even if such events occur under another "watch". The time has come for New York's leaders to wrestle with and resolve the problems of being a high cost producer of public goods and services.

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RECENT INTERESTING READING AND STATISTICAL MATERIAL

Item	Description	Source
Economic Report of the President	Annual summary of the state of the economy and future prospects. This year's report focuses on the design of fiscal, monetary and financial policies, human resources in the 1990s and growth and market reform in the global economy. Large historical statistical section relating to national income, employment and production.	Superintendent of Documents U.S. Government Printing Office Washington, D.C. 20402
"Cash Burning a Hole in Their Pockets?"	Results of recent Barron's survey of more than 3 dozen equity managers. By more than 2-to-1, institutional money managers believe the bull market is alive and reasonably well, but the consensus has the Dow marking time for the next six months. In response to their cautionary impulses, these money managers have increased their cash levels sharply. Overall, the median level has gone from around 7% six months ago to 13% now. Prediction: Dow will bottom out at 2200 before resuming its climb.	Barron's March 5, 1990
"Firms still bank on LBOs"	With the latest batch of troubled LBOs, some market watchers are predicting the end of the LBO era. But the players -- investment and commercial bankers, LBO boutiques, merchant bankers, lawyers, consultants and others -- say the market is giving them a breather. Time to rethink the type of deals done. Clearly, in the future, there will be more equity and less debt, especially junk bond financing. Directory of LBO industry advisers and bankers includes principals, key deals, and description of what the fund does.	Pensions & Investments March 5, 1990
"Still toe-to-toe: Banks and nonbanks at the end of the '80s"	Reviews competition in consumer lending, auto financing, commercial lending and other areas. Market shares, loan volumes, and ROIs suggest that banks are competing skillfully and successfully with the competition. At the very least, banks are holding their own against the competition. Authors conclude: while banks may be hampered somewhat in the future by "past mistakes" -- LDC and real estate lending, broaden powers, especially in insurance brokerage and underwriting, should see the banking industry running well ahead of nonbanks.	Economic Perspectives Federal Reserve Bank of Chicago January/February 1990

Item	Description	Source
"Drexel on the rocks"	Brief commentary on financing in the 1980s from the British perspective. The bursting of Drexel's bubble, along with the collapse in the junk-bond market that chiefly prompted it, will be good for America. But it is wrong to assume that everything to do with Drexel or finance in the 1980s was evil. If America is to regain its competitiveness in the 1990s, there are at least 3 things it must not do: close its markets against the Japanese, protect its managers from takeover, and turn against money-making. Too cheery a wake for Drexel risks two of these.	The Economist February 17-23
"Dealing With the New Europe"	Special international issue focusing on the Eastern Block countries and the implications of change for Western businessmen and bankers. Also, ranking of the largest 1,000 foreign nonfinancial companies by sales and grouped by country of incorporation. Over one-third -- 373 to be exact -- of the largest 1,000 foreign companies based on sales, and 9 of the top 10, are Japanese firms. Even if American companies were included, only General Motors would make the top five.	Financial World March 6, 1990
"The Lean Decade"	Issue dedicated to looking ahead in four key areas of financial services -- money management, banking, Wall Street, and insurance, as well as what regulatory and technological changes may be in the cards. Also, 18th annual Pensions Directory, listing corporate employee-benefit funds, public funds, and money managers. Assets under management for this group total just short of $1.5 trillion, or 22% higher than last year.	Institutional Directory January 1990